

REPORT OF EXAMINATION
OF THE
PACIFIC PIONEER INSURANCE COMPANY

AS OF
DECEMBER 31, 2006

Participating State
and Zone:

California

Filed October 12, 2007

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Los Angeles, California
August 31, 2007

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition (EX4) Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Kent Michie
Secretary, Zone IV-Western
Commissioner of Insurance
Department of Insurance, State of Utah
Salt Lake City, Utah

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

PACIFIC PIONEER INSURANCE COMPANY

(hereinafter also referred to as the Company) at its statutory home office and primary location of its books and records, 16700 Valley View, Penthouse, La Mirada, California 90638.

SCOPE OF EXAMINATION

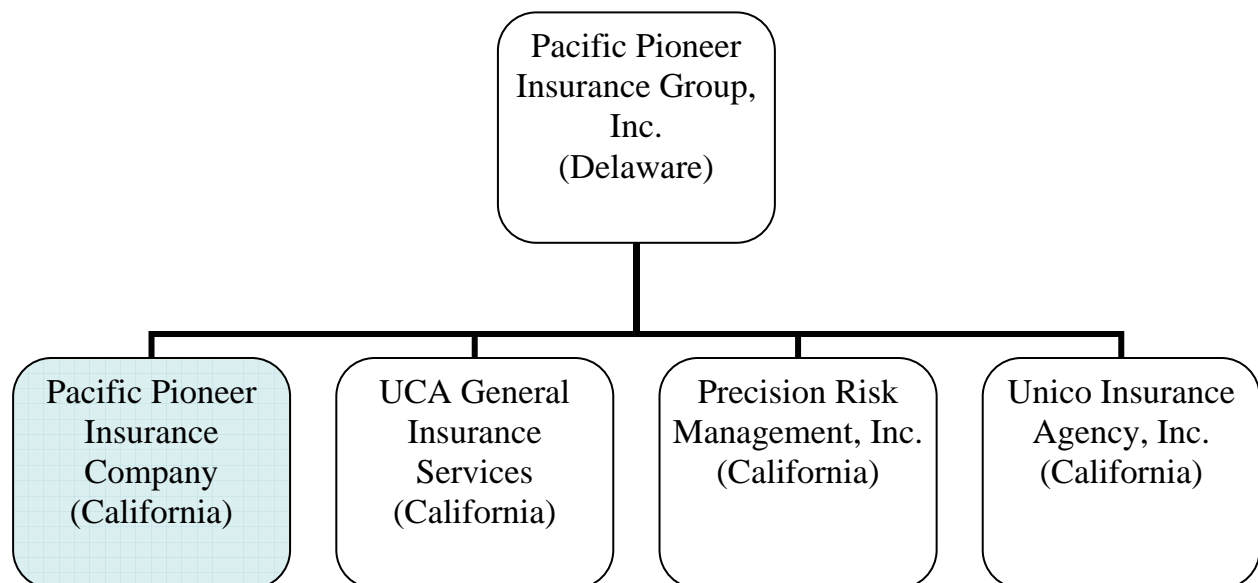
The previous examination of the Company was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: company

history; corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Pacific Pioneer Insurance Group, Inc. The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary insurance companies, depicts the Company's relationship within the holding company system:



Management of the Company is vested in a two-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2006 follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Lin W. Lan Whittier, California	President Pacific Pioneer Insurance Company
John B. Jakle Santa Monica, California	Attorney Harding, Larmore, Mullen, Jakle, Kutcher & Kozal, LLP

Principal Officers

<u>Name</u>	<u>Title</u>
Lin W. Lan	President and Secretary
Ping Chen	Treasurer

Management Agreements

Administrative Service Agreement: Effective December 31, 1992, the Company entered into two administrative service agreements with its affiliates UCA General Insurance Services (UCA) and Precision Risk Management, Inc. (PRM). Under the first agreement, UCA provides the following services: consultation on rate filing process; reinsurance negotiation; processing of premium and payments to the Company; policy issuance; and investment management. Compensation to UCA by the Company is based on actual costs incurred. Under the second agreement, PRM handles the processing and adjusting of all claims. Compensation for its services is based on actual costs incurred. For 2005 and 2004, the Company paid (\$1,184), and \$82,232 respectively, in fees to UCA. For 2006, 2005 and 2004, the Company paid \$383,520, \$428,829, and \$370,217 respectively, in fees to PRM. Both agreements were approved by the California Department of Insurance in conjunction with the acquisition of the Company in 1992.

Tax Sharing Agreement: The Company and its affiliates are part of a consolidated federal income tax sharing agreement with its parent, Pacific Pioneer Insurance Group, Inc. (PPIG). The effective date of the agreement is December 31, 1992. Allocation of taxes is based upon separate return calculations with inter-company tax balances settled within 60 days of payment or refund of taxes.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2006, the Company was licensed to transact multiple lines of property and casualty insurance. The following is a listing of the states in which the Company is licensed:

California	New Jersey
Colorado	Oklahoma
Idaho	Oregon
Kansas	Texas
Louisiana	Utah
Nevada	Washington

As of December 31, 2006, the majority of direct premium written is in California with a total of \$175,720 and the remainder is written in Utah with a total of \$323.

The Company exited the private passenger auto liability business and discontinued writing new business in 2001, but continues to offer renewal policies as required by California statutes. It stopped writing homeowners policies in 2004. The Company is currently assuming 20% of the first \$1 million of commercial multiple peril (CMP) business that is produced by its affiliate and managing general agent, UCA General Insurance Services (UCA) and is underwritten through Sirius America Insurance Company (SAIC). All business is referred to UCA by its appointed independent brokers.

REINSURANCE

Assumed

The Company assumes commercial multiple peril (CMP) business from Sirius America Insurance Company (SAIC). CMP business assumed under this contract is produced exclusively through a Company affiliate, UCA General Insurance Services (UCA). The Company assumes 20% of the first \$1 million of the CMP business produced by UCA and written by SAIC. The total assumed premiums in 2006 was \$5.1 million.

Ceded

The following is a summary of the principal ceded reinsurance treaty in force as of December 31, 2006:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
1 st Excess of Loss	Lloyd's London	\$1 million each loss occurrence	\$1 million each loss occurrence with \$2 million in aggregate

The Company's reinsurance program utilizes the services of Towers Perrin Forster & Crosby, Inc., as a reinsurance intermediary. As of December 31, 2006, reinsurance recoverable for all ceded reinsurance totaled \$25,075 or .25% of surplus as regards policyholders as of December 31, 2006. All of the ceded reinsurance recoverable is from non-affiliated admitted reinsurers.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

<u>Assets</u>	<u>Ledger and Non-ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 18,869,266	\$	\$ 18,869,266	(1)
Cash and short-term investments	1,944,136		1,944,136	
Investment income due and accrued	206,712		206,712	
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	33,188		33,188	
Funds held by or deposited with reinsured companies	1,846,832		1,846,832	
Reinsurance recoverable on loss payments	344,161	319,086	25,075	
Net deferred tax asset	338,919	338,919		
Electronic data processing equipment	7,358		7,358	
Aggregate write-ins for other than invested assets	588		588	
Total assets	<u>\$ 23,591,160</u>	<u>\$ 658,005</u>	<u>\$ 22,933,155</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 5,626,088	(2)
Reinsurance payable on paid loss and loss adjustment expenses			799,804	
Loss adjustment expenses			1,342,972	(2)
Federal and foreign income taxes			413,191	
Unearned premiums			2,883,820	
Ceded reinsurance premiums payable (net of ceding commissions)			449,579	
Provision for reinsurance			9,654	
Payable to parent, subsidiaries and affiliates			16,347	
Aggregate write-ins for liabilities			<u>1,406,964</u>	
Total liabilities			12,948,419	
Common capital stock		\$ 3,504,000		
Gross paid-in and contributed surplus		4,050,000		
Unassigned funds (surplus)		<u>2,430,736</u>		
Surplus as regards policyholders			<u>9,984,736</u>	
Total liabilities, surplus and other funds			<u>\$ 22,933,155</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income

Premiums earned		\$ 4,688,820
Deductions:		
Losses incurred	\$ 1,570,308	
Loss expenses incurred	1,099,211	
Other underwriting expenses incurred	<u>1,949,770</u>	
Total underwriting deductions		<u>4,619,289</u>
Net underwriting gain		69,531

Investment Income

Net investment income earned	\$ 679,939	
Net realized capital loss	<u>(3,136)</u>	
Net investment gain		676,803

Other Income

Finance and service charges not included in premiums	\$ 16	
Aggregate write-ins for miscellaneous income	<u>632,924</u>	
Total other income		<u>632,940</u>
Net income before federal income taxes		1,379,274
Federal income taxes incurred		<u>279,256</u>
Net income		<u><u>1,100,018</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		\$ 8,819,957
Net income	\$ 1,100,018	
Change in net unrealized capital gains	904	
Change in net deferred income tax	(12,811)	
Change in non-admitted assets	33,781	
Change in provision for reinsurance	<u>42,887</u>	
Change in surplus as regards policyholders for the year		<u>1,164,779</u>
Surplus as regards policyholders, December 31, 2006		<u><u>\$ 9,984,736</u></u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

Surplus as regards policyholders, December 31, 2003, per Examination			\$ 7,603,955
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 2,709,521	\$	
Change in net deferred income tax		(285,335)	
Change in nonadmitted assets		(33,751)	
Change in provision for reinsurance		(9,654)	
	<u>\$ 2,709,521</u>	<u>\$ (328,740)</u>	
Totals			
Net increase in surplus as regards policyholders for the examination			<u>2,380,781</u>
Surplus as regards policyholders, December 31, 2006, per Examination			<u>\$ 9,984,736</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds

A review of the above captioned account disclosed that the Company maintains its securities with Wells Fargo Bank which is no longer a qualified custodian as defined under California Insurance Code (CIC) Section 1104.9. It is recommended that the Company maintain its assets in California with a qualified custodian.

(2) Losses and Loss Adjustment Expenses

The Company obtained an actuarial opinion from its consulting actuary, Oakley E. Van Slyke, Inc., attesting to the adequacy of its loss and loss adjustment expenses reserves as of December 31, 2006.

This report was reviewed by a Casualty Actuary from the California Department of Insurance and, based on the review, the Company's reserves were accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Bonds (Page 10): It is recommended that the Company maintain its assets in California with a qualified custodian pursuant to CIC Section 1104.9.

Previous Report of Examination

Corporate Records (Page 4): It was recommended that the Company implement procedures in its board meetings to ensure compliance with California Insurance Code (CIC) Sections 735 and 1201. The Company has complied with this recommendation.

Reinsurance-Ceded (Page 7): It was recommended that the Company amend its reinsurance agreements upon renewal to comply with CIC Sections 533 and 922.2. The Company has complied with this recommendation.

Accounts and Records (Page 7): It was recommended that the Company prepare an aging report for reinsurance recoverable on paid losses and loss adjustment expenses to determine reinsurance recoverable on paid losses and loss adjustment expenses that are over 90 days due and to ensure the amounts due from its reinsurers are applied correctly to the individual reinsurers. The Company has complied with this recommendation.

Taxes, Licenses and Fees (Page 12): It was recommended that the Company remit amounts due pursuant to the Vehicle Fraud Assessment program and implement procedures to insure future compliance. The Company has complied with this recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and affiliates' employees during the course of this examination is hereby acknowledged.

Respectfully submitted,

/S/

Jack Ho, AES, CFE, CISA
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California